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Executive Chairman's Statement

Results

Group turnover for the period amounted to HK\$907 million, down 25%.

Unaudited net profit attributable to shareholders for the six months ended 31st March, 2002 was HK\$11 million, down 83%, after accounting for retail operation losses of HK\$22 million and specific provision of about HK\$9 million for closing two manufacturing joint ventures in Guangdong, China. Basic earnings per share were 3.6 HK cents. The net asset value per share was HK\$1.88.

The board of directors declared an interim dividend of one Hong Kong cent per share.

Private Label Business and Manufacturing Operations

The terrorist attacks of September 11 and the economic downdraft in the US during the period under review had an adverse impact on our business. Customers cut back their orders and demanded price reduction. Despite these challenges, we were able to maintain the profit margin of our core manufacturing operation.

Branded Labels

The business of August Silk was badly hit as a result of the terrorist attacks in the US, in tandem with the poor performance of the apparel retailers at moderate and better price points in the US during the period under review. Sharply increased competition under such difficult environment intensified the impact on us. We have carefully restructured the operation of August Silk, making it more dynamic, responsive, proactive and market driven. August Silk becomes more alert to every new opportunity, latest market knowledge and fleeting shifts of fashion. We intensify our leverage on our unique resources to create exciting and profitable products to vigorously pursue our customers.

Theme reported a net operating loss of HK\$11 million. We have changed the core management and put in a new merchandise and design team. Our focus is to retain and expand our core customer base.

We experienced differences of corporate culture and values with our Chinese partner in our just-started Wahaha children wear joint venture. An amicable solution is expected for both parties.

Prospects

The apparel retail business in the US remains challenging. We are combating the cyclical fashion downturn of silk apparel. It has become increasing evident that customers buy closer to the season and tend to partner with full package providers who can deliver design, quality at the sharpest prices and in the shortest turn time.

We continue to deepen the re-engineering of our group to make ourselves lean, nimble and competitive.

Executive Chairman's Statement

Notwithstanding the difficult market environment ahead, we are relentlessly leveraging our vertical resources to partner with our major customers, providing total and carefully tailored customer service, with special focus on product innovation for mutual business growth.

We are confident that our deep-rooted corporate culture and values will help us to turn these challenges into new opportunities to grow our company.

Appreciation

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our customers, suppliers and shareholders for their continuous co-operation and support to the Group. I wish to thank the management and staff for their devotion and hard work.

Lam Foo Wah

Executive Chairman

Hong Kong, 27th June, 2002

Financial Results

The Board of Directors of High Fashion International Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31st March, 2002 together with the comparative figures are set out as follows:-

Condensed Consolidated Profit and Loss Account

		Six months ended 31st March,	
	<i>Notes</i>	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER	3	906,910	1,203,034
Cost of sales		(619,664)	(854,497)
Gross profit		287,246	348,537
Other revenue		10,054	12,128
Selling and distribution expenses		(102,120)	(127,870)
Administrative expenses		(157,234)	(151,364)
PROFIT FROM OPERATING ACTIVITIES	3,4	37,946	81,431
Finance costs	5	(15,673)	(18,668)
		22,273	62,763
Provision against investment in and amounts due from jointly-controlled entities	6	(8,716)	-
Share of profits less losses of:			
Jointly-controlled entities		557	5,589
Associates		300	322
PROFIT BEFORE TAX		14,414	68,674
Tax	7	(1,769)	(2,872)
PROFIT BEFORE MINORITY INTERESTS		12,645	65,802
Minority interests		(1,547)	(180)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		11,098	65,622
INTERIM DIVIDEND		3,230	21,835
EARNINGS PER SHARE	8		
Basic		3.6 cents	21.0 cents
Diluted		3.4 cents	20.4 cents

Financial Results

Condensed Consolidated Statement of Recognised Gains and Losses

	Six months ended 31st March,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Exchange differences on translation of the financial statements of foreign entities	<u>(839)</u>	<u>(650)</u>
Net losses not recognised in the profit and loss account	(839)	(650)
Net profit for the period attributable to shareholders	<u>11,098</u>	<u>65,622</u>
Total recognised gains and losses	10,259	64,972
Goodwill eliminated directly against reserves	<u>-</u>	<u>(3,167)</u>
	<u>10,259</u>	<u>61,805</u>

Financial Results

Condensed Consolidated Balance Sheet

	Notes	31st March, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited and restated) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		268,138	266,606
Investment properties		29,000	29,000
Trademarks		6,572	6,917
Interests in jointly-controlled entities		27,152	19,006
Interests in associates		6,482	9,503
Long term investments		13,793	13,793
		351,137	344,825
CURRENT ASSETS			
Cash and bank balances		237,711	153,795
Time deposits		79,177	118,811
Banking bonds and certificate of deposits		33,447	23,452
Bills receivable		17,762	5,560
Trade receivables	9	167,347	260,422
Inventories		257,233	302,478
Deposits, prepayments and other receivables		202,971	155,358
Amounts due from jointly-controlled entities		-	1,109
		995,648	1,020,985
CURRENT LIABILITIES			
Bank loans and overdrafts		211,860	306,284
Finance lease and hire purchase contract payables		512	433
Other loans, secured		708	-
Bills payable		16,194	35,970
Trade payables and accrued purchases	10	164,352	198,007
Other payables and accruals		158,127	157,798
Tax payable		4,842	7,539
Proposed dividend		24,955	-
Amounts due to associates		3,914	4,038
Amounts due to jointly-controlled entities		3,948	8,688
		589,412	718,757

Financial Results

Condensed Consolidated Balance Sheet (Continued)

	Notes	31st March, 2002	30th September, 2001
		(Unaudited) HK\$'000	(Audited and restated) HK\$'000
NET CURRENT ASSETS		406,236	302,228
TOTAL ASSETS LESS CURRENT LIABILITIES		757,373	647,053
NON-CURRENT LIABILITIES			
Bank loans		145,480	22,000
Finance lease and hire purchase contract payables		296	307
Deferred tax		3,430	3,430
		149,206	25,737
MINORITY INTERESTS		21,309	19,762
		586,858	601,554
CAPITAL AND RESERVES			
Issued capital		31,192	31,192
Reserves	11	552,436	545,407
Proposed dividend	2,11	3,230	24,955
		586,858	601,554

Financial Results

Condensed Consolidated Cash Flow Statement

	Six months ended 31st March,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Net cash outflow from operating activities	(17,586)	(29,057)
Net cash outflow from returns on investments and servicing of finance	(10,957)	(54,733)
Taxes paid	(4,466)	(1,680)
Net cash outflow from investing activities	(47,207)	(37,742)
Net cash outflow before financing activities	(80,216)	(123,212)
Net cash inflow from financing activities	156,040	47,360
Increase/(decrease) in cash and cash equivalents	75,824	(75,852)
Cash and cash equivalents at beginning of period	235,531	258,288
Effect of foreign exchange rate changes, net	(764)	(620)
Cash and cash equivalents at end of period	<u>310,591</u>	<u>181,816</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	237,711	110,358
Time deposits with original maturity of less than three months when acquired	79,177	76,886
Bank overdrafts	(1,573)	(5,428)
Trust receipt loans	(4,724)	-
	<u>310,591</u>	<u>181,816</u>

Notes to Condensed Consolidated Financial Statements

1. Accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 30th September, 2001 except that the Group has changed certain of its accounting policies following its adoption of the SSAPs issued by the Hong Kong Society of Accountants which for the Group became effective as of 1st October, 2001.

The major changes to the Group's accounting policies are set out below:

(a) *SSAP 9 (revised) – Events after the balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognised dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

(b) *SSAP 29 – Intangibles*

Trademarks are stated at cost and amortised on the straight-line basis over their estimated useful lives of 10 years.

2. Prior period adjustment

The previously recorded dividend proposed and declared after the balance sheet date but accrued in the accounts for the year ended 30th September, 2001 was HK\$24,955,000. Under the Group's new accounting policy as described in note 1(a), these have been written back to the opening reserves as at 1st October, 2001 in note 11 and are now charged in the period in which they were proposed.

Financial Results

3. Segmental information

	Six months ended 31st March,			
	2002	2001	2002	2001
	Turnover		Contribution	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
By principal activity:				
Manufacturing and trading	782,295	1,084,199	59,789	86,569
Retailing	124,615	118,835	(21,843)	(5,138)
	906,910	1,203,034	37,946	81,431
By geographical area:				
United States of America	683,898	945,663	52,535	67,824
Europe	68,037	92,789	822	4,922
Greater China	148,747	146,876	(16,103)	6,832
Others	6,228	17,706	692	1,853
	906,910	1,203,034	37,946	81,431

4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Six months ended 31st March,	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation of fixed assets	19,785	12,716
Amortisation of trademarks	345	–

5. Finance costs

	Six months ended 31st March,	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	9,141	10,772
Interest on finance leases and hire purchase contracts	92	178
Factoring expenses	2,203	2,793
Bank charges	4,237	4,925
	15,673	18,668

Financial Results

6. Provision against investment in and amounts due from jointly-controlled entities

Being specific provision for investment in and amounts due from two manufacturing jointly-controlled entities in Guangdong of China.

7. Tax

	Six months ended 31st March,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Group:		
Hong Kong	630	1,500
Elsewhere	1,139	933
	1,769	2,433
Share of tax attributable to jointly-controlled entities	-	439
Tax charge for the period	1,769	2,872

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period under review. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$11,098,000 (2001: HK\$65,622,000) and the number of 311,923,630 (2001: weighted average of 311,957,982) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$11,098,000 (2001: HK\$65,622,000). The number of ordinary shares used in the calculation is 311,923,630 (2001: weighed average of 311,957,982) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 10,664,965 (2001: 9,834,794) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

9. Trade receivables

	31st March, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited) HK\$'000
Current to 90 days	156,194	250,952
91 to 180 days	6,908	5,809
181 to 360 days	1,734	2,849
Over 360 days	2,511	812
	167,347	260,422

The Group allows an average credit period of 30 to 60 days to its trade debtors.

Financial Results

10. Trade payables and accrued purchases

	31st March, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited) HK\$'000
Trade payables:		
Current to 90 days	97,735	106,077
91 to 180 days	22,395	12,820
181 to 360 days	11,860	9,763
Over 360 days	10,220	8,299
	142,210	136,959
Accrued purchases	22,142	61,048
	164,352	198,007

11. Reserves

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Capital reserve/ (goodwill) HK\$'000	Capital redemption reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 30th September, 2001								
as previously reported	275,941	(2,093)	11,607	(52,611)	4,703	213	307,647	545,407
Effect of SSAP 9 (revised)								
with respect to declaration								
of 2000/2001								
final dividend	-	-	-	-	-	-	24,955	24,955
At 30th September, 2001								
as restated	275,941	(2,093)	11,607	(52,611)	4,703	213	332,602	570,362
Exchange realignments	-	(839)	-	-	-	-	-	(839)
Retained profits								
for the period	-	-	-	-	-	-	11,098	11,098
2000/2001 final dividend								
proposed	-	-	-	-	-	-	(24,955)	(24,955)
At 31st March, 2002	<u>275,941</u>	<u>(2,932)</u>	<u>11,607</u>	<u>(52,611)</u>	<u>4,703</u>	<u>213</u>	<u>318,745</u>	<u>555,666</u>
Representing:								
At 31st March, 2002								
after proposed interim								
dividend								552,436
2002 interim dividend								
proposed								3,230
								<u>555,666</u>

Financial Results

12. Related party transactions

The Group had the following transactions with related parties during the period:

	Six months ended 31st March,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities	29,548	199,172
Purchases of raw materials and finished goods from an associate	3,826	2,900
Professional fees paid to Wilkinson & Grist	192	101
	<u>33,566</u>	<u>202,173</u>

13. Contingent liabilities

	31st March, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited) HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	1,081	1,081
Bills discounted with recourse	23,246	30,456
Trade receivables factored with recourse	62	187
Guarantees given to banks in connection with facilities granted to third party	20,962	21,226
	<u>45,351</u>	<u>52,950</u>

Management Discussion and Analysis

Results

Turnover for the period amounted to HK\$907 million, representing a decrease of 25%. This is made up of a 28% decrease in turnover from our core business and an increase of 5% from retail business.

Unaudited net profit attributable to shareholders for the six months ended 31st March, 2002 was HK\$11 million, down 83% from the corresponding period, after accounting for retail operation losses of HK\$22 million and specific provision of about HK\$9 million for closing two manufacturing joint ventures in Guangdong, China.

Basic earnings per share were 3.6 HK cents. The net asset value per share was HK\$1.88.

Segmental information

The segmental information is as follows:–

	For the six months ended 31st March,				Change %	
	2002	2001	2002	2001	Turnover	Contribution
	Turnover		Contribution			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
By principal activity:						
Manufacturing and trading	782,295	1,084,199	59,789	86,569	(28)	(31)
Retailing	124,615	118,835	(21,843)	(5,138)	5	(325)
	906,910	1,203,034	37,946	81,431	(25)	(53)
By geographical area:						
United States of America	683,898	945,663	52,535	67,824	(28)	(23)
Europe	68,037	92,789	822	4,922	(27)	(83)
Greater China	148,747	146,876	(16,103)	6,832	1	(336)
Others	6,228	17,706	692	1,853	(65)	(63)
	906,910	1,203,034	37,946	81,431	(25)	(53)

We were able to maintain the profit margin of our core business.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group secured medium term banking facilities of about HK\$200 million, fully drawn as at the balance sheet date. These facilities were mainly used to replace the Group's short-term banking facilities. The Group's total outstanding bank borrowings were approximately HK\$357 million at the period end date. The Group's cash and bank balances totalled HK\$317 million at the balance sheet date, compared to HK\$273 million at 30th September, 2001.

Based on the solid cash position and the banking facilities available, the Group has healthy working capital and liquidity to meet its operating needs.

Our gearing ratio of non-current liabilities to shareholders' funds was 25% at the balance sheet date and the current ratio has been maintained at a healthy level of 1.7:1.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal.

The Group has no material contingent liabilities other than trade bills discounted in the ordinary course of business. Apart from the pledge of trade receivables of certain subsidiaries of HK\$57 million and a subsidiary's property mortgage loan of HK\$1.8 million, there are no other charges on the Group's assets.

General

There was no material capital expenditure during the period.

The total number of employees of the Group including jointly-controlled entities was about 11,000, down 15% from 13,000 at 30th September, 2001.

Other Information

Dividend

The Board of Directors declared an interim dividend of 1 HK cent (2001: 7 HK cents) per share on the shares in issue aggregating a total of HK\$3,230,000 (2001: HK\$21,835,000), which will be payable on or about 29th July, 2002 to shareholders whose names appear on the Register of Members on 19th July, 2002.

Closure of Register of Members

The Register of Members will be closed from 15th July, 2002 (Monday) to 19th July, 2002 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's sub-registrar and transfer agent in Hong Kong, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration by no later than 4:00 p.m. on Friday, 12th July, 2002.

Purchase, Sale or Redemption of Listed Securities

The Company has not redeemed any of the Company's listed securities during the six months ended 31st March, 2002. During the six months ended 31st March, 2002, neither the Company, nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the period under review.

Directors' Interests in Shares

As at 31st March, 2002, the interests of the Directors in the share capital of the Company and its subsidiaries as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(i) The Company

Name of Director	Notes	Number of ordinary shares held and nature of interest		
		Personal	Family	Other
Lam Foo Wah	1,2,4	–	–	109,026,655
Ip Weng Kun	3,4	–	–	33,492,198
So Siu Hang, Patricia		1,436,961	–	–
Hui Yip Wing		–	2,652,007	–
Wong Shing Loong, Raymond		2,500,000	–	–
Jack Weinstock		932,000	–	–

Other Information

(ii) Subsidiary – High Fashion Knitters Limited

Name of Director	<i>Note</i>	Nature of interest	Number of ordinary shares held
Lam Foo Wah	5	Corporate	5,339,431

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 10,164,569 ordinary shares which are beneficially owned by Annick Investment Limited, the entire issued share capital of which is held under a related discretionary trust.
2. Mr. Lam Foo Wah is deemed to have an interest in 70,997,736 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust.
3. Mr. Ip Weng Kun is deemed to have an interest in 5,627,848 ordinary shares which are beneficially owned by Major Rank Holdings Limited, the entire issued share capital of which is held under a related discretionary trust.
4. Messrs. Lam Foo Wah and Ip Weng Kun are deemed to have interests in 27,864,350 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust.
5. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

The interests of the Directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

Save as disclosed above, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, its subsidiaries or any of its associated corporations as defined in the SDI Ordinance as at 31st March, 2002.

Other Information

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of Director	Number of share options outstanding at end of period	Exercise price of share options HK\$
Lam Foo Wah	3,800,000	0.505
Ip Weng Kun	1,500,000	0.505
So Siu Hang, Patricia	1,200,000	0.505
Wong Shing Loong, Raymond	1,000,000	0.505
Jack Weinstock	500,000	0.505
	<u>8,000,000</u>	

Note: 40% of the options granted are exercisable during the period from 5th May, 2002 to 4th May, 2009, 30% of the options granted are exercisable during the period from 5th May, 2003 to 4th May, 2009 and the remaining 30% are exercisable during the period from 5th May, 2004 to 4th May, 2009.

As at 31st March, 2002, no options were granted to or exercised by the Directors of the Company under the existing share option scheme during the period.

Apart from the Company's share option scheme, during the six months ended 31st March, 2002 no rights were granted to the Directors, chief executives of the Company, or any of their spouses or children under eighteen years of age to subscribe for equity or debt securities of the Company.

Substantial Shareholders

As at 31st March, 2002, the following interests in 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	%
Hinton Company Limited	70,997,736	About 23
Excel Investments Ltd.	31,404,724	About 10

The interests of Hinton Company Limited has also been disclosed as the interests of Mr. Lam Foo Wah under the section "Directors' interests in shares".

Save as disclosed above, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in shares", had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.